MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

ULE2612 – LAW AND ECONOMICS

(All sections / Groups)

11 MARCH 2016
Reading Time : 9.00 a.m. – 9.15 a.m.
(15 Minutes)
Answering Time: 9.15 a.m. – 12.15 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. Students will have **fifteen minutes** during which they may read the paper and make rough notes ONLY in their question paper. Students then have the remaining **THREE HOURS** in which to answer the questions.
2. This Question paper consists of 4 pages with 4 Questions only.
3. Attempt **ALL** questions in **Part A** and **ONE** question in **Part B**. The distribution of the marks for each question is given.
4. Students are not allowed to bring in any statute and calculator into the Examination Hall.
5. Please write all your answers in the Answer Booklet provided.

PART A
(Answer all questions.)

QUESTION 1

(a) State the four characteristics of indifference curves.

(4 x 4 marks = 16 marks)

(b) Explain the doctrine of *restitutio in integrum* for a non-pecuniary loss with the help of indifference curves.

(14 marks)

(Total: 30 marks)

Continued ...

QUESTION 2

(a) Kristoff, the promisor, entered into a contract with Elsa, the promisee, to build a house for the price of P, which Elsa values at V. However before work commences, the price of raw material has sky-rocketed to C, whereby $C > P$. This turn of event has made the transaction no longer profitable to Kristoff. Kristoff now wishes to terminate the contract and pay damages D to Elsa.

(i) Using the above figures, explain the theory of efficient breach.

(10 marks)

(ii) Show that in order to achieve an efficient breach, damages must be set at the expectation measure.

(10 marks)

(b) In a separate event, Kristoff entered into a contract with Anna to build a house for the price of $P1$, which Anna values at $V1$, to be completed by 2016. However before work commences, Hans offered Kristoff to build his house at a higher price of $P2$. Both houses cost the same to build, at C. Kristoff now wishes to terminate the contract with Anna and pay damages D instead.

Using the above figures, explain the condition for efficient breach in the above situation.

(10 marks)

(Total: 30 marks)

Continued ...

Part B
(Answer one question.)

QUESTION 3

In his 1976 letter titled "Open Letter to Hobbyists", Bill Gates wrote that:

> One thing you do do [by stealing software] is prevent good software from being written. Who can afford to do professional work for nothing? What hobbyists can put 3-man years into programming, finding all bugs, documenting his product and distribute for free? The fact is, no one besides us have invested a lot of money in hobby software. ... there is very little incentive to make this software available to hobbyists. Most directly, the thing you do is theft.

(a) Explain why software can be characterised as a public good, and what consequences does this characterisation have to the market for software?

(15 marks)

(b) Using an appropriate diagram, explain the role of copyright law to the market for software as described by Bill Gates above.

(15 marks)

(c) Discuss how the Free / Open Source Software movement may be used as an alternative approach to financing software development.

(10 marks)

(Total: 40 marks)

Continued ...

QUESTION 4

The doctrine of *uberrima fides* (Latin: utmost good faith) in insurance law was introduced by Lord Mansfield in *Carter v Boehm* (1766) 3 Burr 1905 (KB):

> Insurance is a contract based upon speculation. The special facts, upon which the contingent chance is to be computed, *lie most commonly in the knowledge of the insured only*; the underwriter trusts to his representation and proceeds upon the confidence that he does not keep back any circumstance in his knowledge, to mislead the underwriter into a belief that the circumstance does not exist, and to induce him to estimate the risk as if it did not exist. Good faith forbids either party by concealing what he privately knows, to draw the other into a bargain from his ignorance of that fact, and his believing the contrary.

(a) Using an appropriate diagram, explain why the problem of adverse selection occurs in insurance market when different types of insured persons have private information which is not observable by the insurer.

(20 marks)

(b) Discuss how the doctrine of *uberrima fides* could cure the market failure of adverse selection above.

(10 marks)

(c) Explain the use of a medical examination to overcome the problem of adverse selection in health insurance.

(10 marks)

(Total: 40 marks)

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